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SIPDIS

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SUBJECT: INFLATION, BDA POSE PROBLEMS FOR MACAU MONETARY
AUTHORITY

REF: A. HONG KONG 1126

[1](#)B. HONG KONG 576

[1](#)C. HONG KONG 459

Classified By: EP Section Chief Laurent Charbonnet, Reason 1.4 b/d

[1](#)1. (C) Summary: Inflation and the future of Banco Delta Asia (BDA) are the Macau Monetary Authority's (AMCM) most pressing problems. BDA's anti-money laundering (AML) regime has regressed since AMCM was forced to return management control of the bank in September 2007. Controlling shareholder Stanley Au is "stubborn and defiant," said Teng, and will continue to use the courts to try to push back regulator-imposed restrictions on his bank operations in Macau and Hong Kong. Au will not sell BDA; rumors of a deal with Bank of China are false, said Teng. Aside from BDA, the Macau banking system is in good shape. But rapid growth and rising food and fuel prices are driving high inflation. The Macau government is sending mixed messages on its willingness to tackle inflation; moving to slow fiscal spending on one hand, but also promising to give all Macau residents a 5000 pataca (US\$625) bonus. The AMCM opposes a government proposal to cap mortgages as a means to slow growth, preferring to rely on banks to practice sound risk management. End Summary.

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BDA Defiant, Refuses to Address AML Concerns
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[1](#)2. (C) Macau Monetary Authority Chief Executive Anselmo Teng met with Econoff July 2 to discuss the implications of the U.S. decision to lift sanctions on North Korea associated with the Trading With the Enemy Act (TWEA) and remove North Korea from the list of Sponsors of State Terrorism (SST). Teng was pleased to understand that U.S. actions did not affect BDA's designation as a "primary money-laundering concern." Teng noted that BDA had taken no substantive measures to improve its AML regime since AMCM was obligated by Macau law to return BDA to the control of its shareholders in September 2007. At that time, AMCM presented BDA with a list of 23 specific measures necessary to improve its AML regime, said Teng. A recently completed audit of BDA by AMCM bank supervisors showed that BDA had made no improvements and had moved backwards in several areas, he said.

[1](#)3. (C) Instead of taking measures to address weaknesses in BDA's AML regime, primary shareholder Stanley Au is pursuing legal action against both the AMCM and the Hong Kong Monetary Authority (HKMA). Au has filed suit against AMCM for exceeding its authority in appointing outside managers from 2005-2007 and is preparing the same type of complaint against the HKMA for appointing outside managers for Au's Hong Kong-based financial institution, Delta Asia Credit.

14. (C) Au is stubborn and defiant, said Teng, and still considers himself a victim of American persecution. He has rejected suggestions by AMCM that he consider selling the bank. Teng discounted rumors that the Bank of China might be interested in purchasing BDA. He noted that the 2007 appointment of former Bank of China (Macau) Deputy General Manager Cai Xiao Feng as Executive Director and CEO of BDA had sparked this rumor, but that Bank of China (Macau) had publicly denied interest in BDA. Cai has stepped down as CEO after less than one year, said Teng, and has been replaced by Michael Leung Chi-ping, formerly an independent non-executive director of BDA.

15. (C) Teng insisted that, excepting BDA, the Macau banking system is in good shape. Macau's growing wealth and rapidly increasing money supply means that even BDA has increased its deposit base over the past year. The Macanese banking system is dominated by international banks that easily meet global standards for due diligence and AML compliance. The International Monetary Fund will conduct a review of the Macanese bank regulatory system in July, said Teng.

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Macau's Mixed Message on Inflation

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16. (U) Inflation has become the AMCM's most pressing concern. Rising food and fuel prices, combined with unemployment rates below 3% and massive amounts of money flowing into Macau's economy, have pushed prices up 8.95% year on year. Because the Macau pataca is pegged to the Hong

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Kong dollar, the AMCM has very little room to maneuver on interest rates. The government has begun to slow projects and issue statements designed to slow the pace of investment. The recent announcement limiting additional gaming tables and freezing development were part of this effort, said Teng.

17. (U) Local contacts report that real estate development approvals have also slowed dramatically. Teng would not speculate as to whether that was a result of government efforts to slow growth or increased wariness by civil servants in the wake of the corruption conviction of former Secretary for Transport and Public Works Ao Man Long. The AMCM does not support proposals to place a cap on the loan-to-value ratio for residential mortgages, similar to Hong Kong's 70% of value limit on property lending. Macau currently has no administrative or statutory limits on loan-to-value ratios. Banks should be free to judge and manage their own risk, he said. Capping mortgages will not significantly slow growth and leave some worthy borrowers unable to purchase homes.

18. (U) The government has undermined its own efforts to brake the economy by recently announcing that it would give every Macau resident 5000 patacas (US\$625) as a bonus after receiving record tax revenues in 2007. The government collects 39% of gross gaming revenues; in 2007 total revenue exceeded MOP 40 billion (apx. US\$5 billion) against expenditures of just under MOP 19 billion (US\$2.38 billion). The cash rebates, which will begin to be distributed later this year, will help people to adjust to higher prices for imported food and fuel, said Teng. The government is also trying to help traders find new sources for imported goods in an attempt to lower prices for consumers, he said.

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